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AUTHOR Trezise, Philip H.
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ABSTRACT

What we can expect in the future from the miracle economies of Japan, South Korea, Taiwan, Singapore, and Hong Kong, whether they pose a threat to the older industrial states of Western Europe and North American, and whether China is to be the next emerging Asian economy are discussed. The amazing economic recovery of these East Asian countries demonstrates that it is possible for modern industrial economies to emerge in a situation of adverse ratios of population to land area and to natural resources. However, economic miracles cannot be prolonged indefinitely. Japan's experience is instructive--Japan's economy has settled down to a rate of growth on average higher but not startlingly higher than that of other advanced countries. The sources of economic growth are subject to change and to erosion over time. A similar slowing of economic growth will likely occur in these other Asian miracle countries. To believe that exports from countries that have ample supplies of low wage labor and access to advanced technology will overwhelm established American and European industries is to believe in fairy tales. It is not beyond possibility that China will become another Taiwan in GNP growth and another Japan as an exporter. (RM)

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EMERGING ASIAN ECONOMICS

by
Philip H. Trezise

August 9, 1985

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Emerging Asian Economies

I.

East Asia has been preeminently the site of economic "miracles" during the four postwar decades. Japan comes first to mind, with its remarkable and sustained recovery from defeat and economic disruption. The Japanese record of GNP growth has now been approached or surpassed by South Korea, Taiwan, Singapore, and Hongkong. Other economies that conceivably could qualify for the term "miracle" in the near term future are those of Malaysia and Thailand. For various reasons, the Philippines and Indonesia seem unlikely to be contenders at any early date. In the distance looms the Chinese colossus, with an immense potential and prospects that are uncertain to doubtful.

Comparative figures in Table 1 suggest how exceptional have been the economic growth achievements of the East Asian miracle workers.

These high East Asian rates of growth, more or less twice the world average, tell us first that the citizens of the countries concerned have mastered the central economic problem of allocating and using local resources efficiently, relative to world standards. No one of the five countries, it will be remembered, is favored with raw material riches, rather the contrary. Their growth has not been based on the accident of having large amounts of a valuable natural resource, as in oil producing states like Kuwait or Saudi Arabia or, in East Asia itself, the small kingdom of Brunei. In all five cases, in fact, the initial circumstances from which high income growth developed could hardly have been less auspicious or the prognosis for the future more somber.

Table 1

Annual Average Rates of Growth, Real Gross
Domestic Product, 1950-1984

World	4.1 percent	
West Germany	4.8	"
United States	3.3	"
Hongkong	9.2	"
Taiwan	8.4	"
Japan	8.0	"
Singapore	7.9	"
South Korea	7.2	"

Note: Percentages computed from GOP series compiled by Dr. Herbert Block, originally for a Department of State publication, The Planetary Product. Dr. Block's series is unique in providing total estimates based on consistent assumptions for the entire period from 1950.

The miracles, which of course had nothing of the supernatural about them, have reflected skills in combining the factors of production to carry out a great variety of desired and interrelated tasks, among them the wide distribution of the resultant output of goods and services. We tend to take the processes of production and distribution for granted. Actually only in a minority of the countries of the world are they conducted effectively enough to permit average household incomes much above the level of subsistence. The accomplishment of the East Asian five has been to demonstrate that it is possible for modern industrial economies to emerge in a situation of adverse ratios of population to land area and to natural resources--and in a region where, save for Japan, the capacity to organize economic activity on a broad scale was generally considered to be in doubtful supply.

Since this is a conference devoted to the future, it will be appropriate, I assume, if I discuss in a bit more detail the five success stories for indications as to where these economies will go henceforth. Also, because all five are redoubtable exporters, I propose to comment on the threat that some people believe they pose to the older industrial states of Western Europe and North America. Finally, I would like to speculate briefly on the intriguing question as to whether China is to be the next emerging Asian economy.

II.

As I have said, the East Asian miracle states had in common an unpromising outlook at the outset of their take-off into ultra rapid

growth. Japan, by far the largest and most important of them all, was under occupation rule, mainly benign to be sure, until 1951. Recovery from the post-surrender economic abyss had been impressive but the country's ability eventually to pay its way was questionable, given the weakness of export industries and the inescapable requirement for more imports. Per capita domestic output in 1950 (valued in 1984 dollars) was \$1200, well below that of Singapore.

The Republic of Korea in 1950 was at war with the Communist part of the Korea peninsula, a war that would disrupt Korean economic life well beyond its ending in 1953. In the view of American aid administrators of the 1950s, the likelihood was close to nil that South Korea could do without large grants of U.S. assistance in any proximate future year. Per capita GDP in 1950, in 1984 dollars, was \$276.

Taiwan in 1950 had become the refuge of the remnants of the Nationalist government and army of China. As a colony of Japan, the island had developed a relatively modern agricultural sector, including a structure of roads, railroads, and electrical utilities. Suddenly, however, an economy with a per capita GDP of \$360 (1984 values again) had to absorb and support more than a million civilians and soldiers from the mainland. As in Korea, American aid came to be a seemingly indispensable economic crutch for the erstwhile province which had now become the Republic of China.

Hongkong too was a postwar point of refuge for people from the Chinese mainland. Its population of 600,000 at war's end had almost

had almost quadrupled to 2.2 million by 1950. This grand influx came just before Hongkong's prewar economic reason for being, the entrepot trade with China, was to suffer a near mortal blow when the Korean war brought a United Nations embargo on the China trade. Unlike Japan, Taiwan, and Korea, moreover, Hongkong had no foreign aid angel to provide resources to cushion the shock.

Singapore also entered the 1950s with dubious economic prospects. Like Hongkong, prewar Singapore had been an entrepot, in its case for Malaysian and Indonesian trade. Revolution in Indonesia and insurrection in Malaysia impeded a recovery of entrepot activity, while in Singapore itself politics and the labor movement had come under strong communist influence. The independent city-state, as it became in 1965 after a brief fling at merger with Malaysia, had the highest per capita GDP in East Asia in 1950, at \$1500 1984 dollars. Over the next ten years, to confirm the pessimists, per capita output changed hardly at all as population grew by 60 percent, only slightly below the growth of GDP.

In sum, each of the Asian miracles began with economic life at a low point. This is important in more than the trivial sense that it is easier to achieve impressive percentage rates of growth from a low start than from a high beginning level. The crucial consideration is that Japan, Korea, et al were countries or entities having large numbers of people who were producing far less than their abilities would have allowed. Japan in 1953, for example, still had 43 percent of its labor force engaged in agriculture, producing only 16 percent

of GDP. In agricultural Taiwan 56 percent of the employed population was on the land, contributing 38 percent of output. As late as 1963, South Korean agriculture accounted for 64 percent of total employment but only 48 percent of national income. In Singapore and Hongkong, with populations inflated by immigration, sizable pools of underemployed and unemployed workers provided a basis for rapid increases in output.

An apparent excess supply of labor obviously is not a sufficient condition for an economic miracle, else India, China, Indonesia, Egypt and many other countries should long since have enjoyed super-growth. It may, however, be a necessary condition. In any case, the five fast growth East Asian economies were able to shift large numbers of persons from low productivity farming, cottage industry, low value services, or unemployment to modern manufacturing and to trade, construction, and other services, with salutary results for productivity and total output.

It is of interest that there was little of a common political pattern in East Asian development experience. Japan has been the only political democracy of the five. Hongkong has been alone in having a free trade, non-interfering governmental system. South Korea and Taiwan have been and are autocracies. In both countries governments have been major actors in economic life, considerably more so than in a quite interventionist Japan. In Singapore, with an economy and economic problems similar to those of Hongkong, the political leadership chose at first to try a policy of protectionism and import substitution, then turned to export oriented industrialization in which the authorities had a large role.

There are other differences. After the peace treaty, an independent Japan relied primarily on domestic savings to finance the growth of its capital stock; borrowing abroad and foreign investment in Japan were little utilized or actively discouraged. Taiwan's policies were much like those of Japan, although U.S. official aid was an important source of capital until the mid-1960s. Korea, on the other hand, has become a large scale borrower in foreign capital markets, if not as recklessly as the Latin American "newly industrializing countries." Singapore has aggressively pursued foreign direct investment as a way to build quickly a manufacturing sector. Free market Hongkong has successfully attracted capital from overseas Chinese and from other investors abroad without special effort.

The lesson, if any, seems to be that a variety of economic policies can be consistent with high economic growth. In each of five cases, enterprises in the modern sector of the economy emerged and expanded, pulling in workers from less rewarding activities and from the unemployed. Capital equipment, new techniques, improved organization, and innovative management all were factors enabling steady progress toward higher output per employed person. Where governments were especially interventionist in economic life as in Korea and Taiwan, this either did not inhibit or actually fostered the process. That resolutely non-interventionist Hongkong has had the highest rate of growth of all could be taken to mean only that other things have made it a special case - or that the numbers are wrong.

What can be said with some assurance is that economic miracles cannot be prolonged indefinitely. Japan's experience is instructive.

Between 1953 and 1973 the Japanese economy grew in real terms by almost five and one-half times--a performance probably not matched in those two decades anywhere. In the early part of the period Japan was recovering from war and postwar destruction and disruption. Its recovery was stronger than most but West Germany at least had a comparable experience. In the 1960s, however, Japanese growth took on added momentum, while the pace in the European postwar economies slowed. This led some observers, Japanese and foreign alike, to foresee a Japanese miracle continuing through the century. Best known probably was Herman Kahn, who incautiously predicted in 1970 that the rate of economic growth in Japan would increase rather than fall in the decades ahead.

In fact, after 1973 Japan's economy settled down to a rate of growth on average higher but not startlingly higher than that of other advanced countries--for the decade 1974 through 1983, an annual average GNP increase of about 4 percent. Apart from exemplifying the perils of prophecy, this slowdown reminds us that the sources of economic growth are subject to change and to erosion over time. As the initial large pool of Japan's underemployed and unemployed was drawn down, the potential for growth diminished. Other fundamental contributors to Japan's extraordinary burst of growth, such as the rapid build-up of the stock of capital, similarly were destined to decline in influence, and have done so. No serious analyst today would expect Japan's economy again to get back to its 1953-1973 pace.

It is as predictable as anything can be that the other East Asian fast growers also will slip to a slower pace. Labor markets are tightening, which means that investment opportunities will appear to be less profitable. Economies of scale will bring lower returns than in earlier periods. Differentially large gains from applying new technology will diminish as technology spreads among the world's economies.

This is not to say that the economies of South Korea, Taiwan, Singapore, and Hongkong will not continue to show faster growth than most others in the world. Korea and Taiwan, for instance, surely have not completed the transition from being primarily agricultural economies. In 1983 almost 19 percent of total employment in Taiwan was in agriculture, forestry, and fisheries, sectors that produced less than 9 percent of net national output. Korea has protected agriculture most strongly and in consequence has the largest proportion of its labor force in primary production. It would be astonishing, moreover, if other sources of potential growth in these economies were not more robust than in, say, Japan. For one thing, educational levels are still far below those in Japan. As the differential narrows, Korean workers can be expected, all else equal, to more nearly approach the productivity levels prevailing in Japan.

All the same, the fact remains that the odds are heavily against perpetual miracles. In simplest terms, the GNP growth rate represents the sum of the rate of increase in employment and the rate of increase in output per employed person. In South Korea in the five years

1970-1975, the labor force and employment grew at an annual average rate of just short of 4 percent. At the end of the decade and into the '80s these rates of growth were lower by about 40 percent, to 2.2 percent in the case of employment. To maintain the earlier rate of GNP growth, 8 percent, the productivity growth rate would have had to have increased by about one-half. Actually, for what a comparison of short periods is worth, GNP growth 1977-1982 was about half that of the earlier period, implying that productivity growth had fallen, not risen. More to the point, as growth rates of the labor force slow, productivity per worker must increase faster and faster if the 1962-1984 rates of GNP growth are to be matched. This could happen but it is not likely.

III.

If the East Asian miracle economies differed in important respects, they were alike in becoming energetic players in the field of international trade--and by necessity in trade in manufactured goods. Trade in world markets for manufactures is a true testing place for economic efficiency, for the participants must contend with competitors from the most technologically advanced producers in the world.

The earliest Asian starter, Japan, by reason of size, has captured attention, and not wrongly. In 1955 a vigorously reviving Japanese economy accounted for only slightly more than 2 percent of world exports. In 1985, Japan's share of a much greater volume of trade will be close to 9 percent. The seemingly relentless expansion of Japan's exports had caused, as we know, alarm and resentment the world around, most especially in North America and Western Europe.

Comparatively, however, Japan's is scarcely an export driven economy. Exports account for 13 to 14 percent of Japanese GDP. Taiwan's figure is 50 percent, Korea's 30 percent. The city states, Hongkong and Singapore, have far larger ratios because of entrepot trade. Hongkong's exports in 1984 equalled 72 percent of GDP and Singapore's exceeded that country's total domestic output. (In both city-states, it is to be remarked, the entrepot or reexport trade has long since been overtaken and surpassed by exports of domestic manufactures).

It is not too much to say that world attention to the East Asian economies would have been much more restrained had it not been for these demonstrations of export prowess in manufactures. High growth rates are one thing, high growth rates for exports of manufactures another. A not untypical worry in the United States and Western Europe has been that the East Asian examples suggest that other countries with ample supplies of low wage labor and access to advanced technology will soon follow suit. It is foreseen that exports from these countries, "nics," will overwhelm established American and European industries, leaving behind intolerable unemployment and economic distress. Unless the rich nations put up protective walls against this assault, which the East Asians and a few Latin Americans have begun, economic disaster inevitably impends, or so it is said.

A first response, of course, is that the problem is hardly with us yet. In 1982 all of the developing countries together accounted for about 10 percent of imports of manufactured

goods by the industrial countries. Any contribution of the small East Asian states to economic discomfiture in the rich countries cannot have been overwhelming. The supposed deluge of total manufactured goods exports in reality has been more nearly a trickle.

There is another reality. Most of the hundreds of millions of people supposedly about to produce manufactures at absurdly low wages now manage to eke out meager existences, mostly as subsistence farmers. They are not producing industrial goods because they lack skills, tools, and machines, because they live in countries too poor to provide education or to generate the savings needed to create necessary capital, and because they are in societies where too few individuals have the capacity or motivation to mobilize and use effectively the savings that could be available. The South Koreans, Taiwans, Hongkongs, and Singapores, plus a few others, are the exceptions. Others will follow their lead, no doubt, but to believe that the world's economic stage will shortly be populated with economic miracles is to believe in fairy tales.

These points are correctives to fears that have very fragile foundations. Suppose, however, that a number of new "nics" were to become exporters in the image of Korea and Taiwan. Are we to expect that they will export their manufactured articles and buy nothing in return? In the world as we know it, not even the richest nation would think it could afford to send abroad more than a small fraction of its production in the form of grants-in-aid. Why, then, would the new starters not use their export earnings to buy goods from abroad?

Among the small East Asian states only Taiwan has a merchandise trade surplus, which it invests abroad. The others buy more imports than they sell exports. South Korea has been an especially heavy borrower in foreign capital markets to finance its deficit. The process of industrialization typically requires large imports of capital equipment. This makes the advanced industrial nations large net exporters of manufactured goods to the developing world--in 1982, the most recent year for which I have the numbers, \$230 billion of exports versus \$65 billion of imports.

If this margin were to diminish in the future, economic adjustments would be made, as has always happened. The present day rich countries would not become less rich. They would produce other goods and services to exchange for goods and services that were being produced more efficiently in the newly industrialized nations. Incomes would continue to rise at home even as incomes were rising in the poor countries. Trade is not a zero sum game in which one party must lose. If it were, trade across borders would have ceased long since, whereas its growth has regularly exceeded the growth of world production throughout the postwar years - years which, moreover, have registered the largest gains in income world wide in modern times.

IV.

The benefits of a growing volume of trade and specialization do of course entail costs. Workers may be displaced and capital values reduced in sectors that are hit by competitive imports. In principle,

these consequences are no different than when an adjustment is required by a change in consumer tastes or habits or when a governmental defense program is ended. Nevertheless there is a rather widely accepted view that the adjustment to import competition is a matter of particular public concern. U.S. trade legislation has traditionally mirrored this view.

In this sense the emergence of China as a trading power can be said to present a "problem" for the future. To put the issue in bold relief, suppose that the economy of mainland China were to grow over the next fifteen years at the Taiwan rate of 1970-1984--7.8 percent--then in 2000 the country's GDP (in 1984 dollars) would be \$1.3 trillion. Suppose further that the ratio of merchandise exports to GDP were to be, not a Taiwan's 50 percent but a Japan's 13 percent, then China would be selling to the world \$170 billion of goods, or about where West Germany and Japan are today.

This outpouring of Chinese products would, moreover, have to be concentrated initially in the labor intensive items that would be almost certain to cause the most difficult adjustments in the industrialized nations. A first indicator of the kind of difficulties that could lie ahead has already been seen in the textiles trade. During the rest of the century, on the foregoing assumptions, China could become more and more the focus of anger and hostility within the industrial sectors faced with this new surge of low wage competition.

How realistic is it to expect that China will become another

Taiwan in GDP growth and another Japan as an exporter?

It is not beyond possibility, obviously.

First, China's economic performance over the past 30 years has not been unimpressive. If the GDP numbers are to be believed, which is open to question to be sure, GDP between 1950 and 1980 grew at an annual average rate of 5.8 percent. As might be guessed, the early 1950-1955 period, with civil war out of the way and a stable national government in place, had a considerably higher growth rate. But in subsequent years, despite the Great Leap Forward and the Cultural Revolution, growth was at an average rate well above that for the world as a whole.

Then, too, the country undoubtedly has a large mass of underemployed and unemployed workers yet to be absorbed into the modern sectors of the economy. The numbers, like all numbers for China, are open to doubt, but the raw potential for a considerably greater employed labor force must be there. Moreover, the Communist investment in "universal" education means that the quality of the work force should not be much less a plus for economic growth than was true in Korea, for instance.

On a more speculative line, but one that needs mention, ethnic Chinese have dominated three of East Asia's emerging economies. Elsewhere in East Asia, Korea and Japan excepted, the overseas Chinese have provided a disproportionate share of local entrepreneurial and managerial skills. It may be remembered too that prior to the Japanese invasion of central China in the late 1930s, the Yangtze

Valley -- Shanghai-Nanking-Wuhan -- was a thriving and growing industrial region, run by Chinese. If a growth conscious governmental policy really does allow room for personal enterprise and initiative in China, there should be the possibility of a vigorous and positive response from among the billion or so Chinese citizens.

If there are reasons for a favorable economic prognosis, there are also reasons for doubt.

It is easy to forget that a and perhaps the principal economic contribution of the Communist Party has been to give China an operative national government for the first time in a good deal more than a century. In 1949 Mao Tse-tung and his colleagues took over a country that had been warlord-ridden and sectionally divided and put in place a central authority with a monopoly of military and political power. Thus it became possible to mobilize resources on something like a nation-wide scale and to pursue economic recovery and development in an environment of relative order. Mistakes were made, of which the Great Leap and the Cultural Revolution were merely the most egregious, but the hand of a strong government did make possible a more effective use of the country's latent capabilities than at any time in China's modern history.

A command economy, however, has its obvious limitations. It may successfully organize great public works projects but it is not a system that is likely to allocate resources to their potentially most productive uses or to provide incentives for innovation and enterprise. The regime since Mao's death has evidently concluded

that it must make a decided and presumably lasting shift away from overall central planning and intrusive economic controls toward market mechanisms, incentives, and some degree of freedom of choice. This is an experiment fraught with risks, risks for the Communist party above all. The cadres, whose fidelity to the party is based on self-interest as well as ideology, are to lose some of their power. Yet they are an essential part of the Communist political structure. Without their loyalty, the ability of Beijing to control this large and unwieldy country could be undermined, with unforeseeable consequences.

The obvious answer will have to be a succession of compromises. Party activists will be expected to assure that government policies are carried out but will also be expected to leave more economic decisions to managers and individuals. Private enterprise will be allowed to spread but the state will retain control over major industrial sectors. And so on. Thus far, it appears, the experiment has gone rather far in agriculture, and the results have been satisfying. As the policy is extended to other sectors, however, strains on the system probably will be severe. Whether the kind of mixed economy that Deng Xiaoping seems to envisage can work must remain a very large question.

In other respects as well the prospects for a modernizing, high growth economy must be viewed with caution. As I have said, China like Japan, Taiwan, and so on, begins with a mass of under utilized workers whose employment in more productive occupations could help

to propel the economy forward. Most of China's workers are on the farms, however, and Chinese agriculture is a very labor intensive sector. Whether it can give up much of its work force except at a sizable cost in terms of farm production is one of the uncertainties Mr. Deng must contend with.

A partial way out, of course, would be farm mechanization, which could free farm workers for other employment, including seasonal employment in activities like construction. Then the question arises as to the amount of investment that can be afforded. If the potential of China's excess labor is to be realized, capital plant and equipment of all kinds must be supplied. Because China is a poor country, the savings needed to support a rising volume of investment cannot come easily from domestic sources, which means mostly from the agricultural population. Because China is a very large as well as poor country, foreign capital cannot be quite the crutch that it has been at various stages for countries like Korea and Taiwan.

There are many other question marks. Anyone wishing to predict Chinese GNP fifteen years hence must reckon with dubious data and all manner of economic and political unknowns and uncertainties. Mr. Deng has set a goal of annual GNP growth at near 10 percent, but that is a target not a policy. We shall see.

Meanwhile, it will be sensible to forego needless worries. If in fact the Chinese do develop a successful quasi-capitalist, quasi-socialist economy the world assuredly will not be poorer for it, any more than it is poorer for other successes in East Asia. The

only reason why we might not be able to cope with another and unudually large entrant into the arena of world trade is that we will have managed our own economies badly. The Chinese cannot hurt us economically. We can only hurt ourselves.